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Arizona may run out of money in February

Arizona could run out of money to pay its bills as early as next month, Treasurer Dean Martin says.

And unlike last spring, when the treasurer issued a similar alarm, this time there won't be reserves to cover the bills. Martin says the state will be forced to borrow money in the short term - the first time since World War II - and adds that there is little that lawmakers can do to avert it.

"No matter what they do with the budget, we'll be negative in March or April," Martin said.

He has shared his sober analysis with the incoming legislative leaders, as well as Jan Brewer's gubernatorial transition team.

"Essentially, the state is broke," said House Speaker-elect Kirk Adams, R-Mesa.

Adams said he's not sure he agrees with Martin's belief that there is no way to avoid borrowing, saying lawmakers are hoping to rein in the state's \$1.2 billion budget deficit through spending cuts.

But, he added, "there's only so much you can do in the next few weeks."

"You have to be able to meet payroll, and you have to keep the lights on," Adams said.

Lawmakers begin their regular legislative session Jan. 12 and are expected to get to work immediately on a budget solution.

The state's \$9.9 billion budget is at least \$1.2 billion out of balance. Spending has continued while revenues from sales and income taxes have fallen far short of projections. The state Constitution requires a balanced budget by the time the fiscal year ends June 30.

An analysis by the treasurer's staff shows that the state's fund balance could dip to negative \$50 million on Feb. 23 at the earliest and mid-March under a more optimistic scenario. That could force the state to borrow at least that much, if not far more. The deficit would trigger the first borrowing the state has done to cover daily bills since the state's tax structure was revamped around World War II to rely on sales and income taxes, instead of property taxes alone.

The state would seek short-term loans, not exceeding three months, from banks.

Loans would only add to budget problems down the road, as the money would have to be paid back with interest.

In addition, the action will likely hurt the state's bond rating, as lenders don't look kindly on borrowers who have no cash.

Martin plans to hold a news conference Monday to announce his latest estimate of when the state's checkbook runs out of money. He has already predicted a possible cash shortage by mid-spring but said numbers his office received last week show a more imminent problem.

Brewer, who is expected to become governor once Gov. Janet Napolitano is confirmed as the nation's next Homeland Security chief, is aware of the situation and is monitoring it, said Doug Cole, a spokesman for Brewer's transition team. He did not comment further.

Martin said the only chance of dodging the borrowing bullet would be if the federal government enacted a stimulus program that would send aid to state and local governments. However, Martin said if that aid comes in the form currently being planned - grants for specific projects - it wouldn't help the state's bottom line.

Adams said the news underscores the severity of the state's budget woes and highlights what he calls the "mismanagement" of the past two state budgets. Although Republicans controlled the Legislature for both budget seasons, the deals were brokered by Democrat Napolitano, legislative Democrats and a handful of Republicans.

"We spent far more than we had money for," said Adams, who voted against the budgets.

If the state's checkbook runs dry in February, Martin said he could tap the \$130 million remaining in the rainy-day fund to cover bills. But that would leave no reserve fund for lawmakers, and it wouldn't cover the \$600 million payment that must be made to the state's public schools in March.

Already, the state has figuratively turned over the sofa cushions looking for any spare dollars. Last year, the School Facilities Board had contemplated holding off on issuing new bonds, hoping for better rates this year.

But Martin asked the board to issue the bonds in November as planned. That got the state a revenue stream that has kept its account in the black.

And in October, Martin notified the state Department of Transportation that the state would likely be forced to recall \$110 million it lent to the agency. That is likely to occur in February or March. ADOT Director Victor Mendez replied that the agency would reluctantly surrender the funding, which was issued in \$50 million and \$60 million notes. However, he noted that the \$60 million note provides "an important working capital cushion" for the agency.

The \$50 million note was intended to help local governments accelerate transportation projects.

State law requires that the state use all available money before the treasurer can begin to seek loans.

Unlike last spring, when there was cash, Martin said there are no more budget gimmicks that have been relied on in the past.

"Budget gimmicks aren't free when you're out of cash," he said.

If Martin does issue the warrants, he could be facing a legal challenge: The Goldwater Institute has said it would sue if the state exceeded its constitutional debt limit of \$350,000.

The situation might not be so dire if lawmakers had held a special session last month to start chipping away at the deficit, Martin said. Any cuts would have reduced the strain on the cash flow.

But legislative leaders concluded there wasn't enough time to work out the details, so a budget fix now waits for the new Legislature to be seated and for Brewer to become governor, expected to happen later this month.

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